



Highlights

- B.C. housing market slowdown continued
- Manufacturing dropped for the fourth consecutive month, extending downtrend
- Housing starts edged up in August, with diverse results among CMAs

Home sales and prices continue downtrend through August

Bryan Yu, Chief Economist

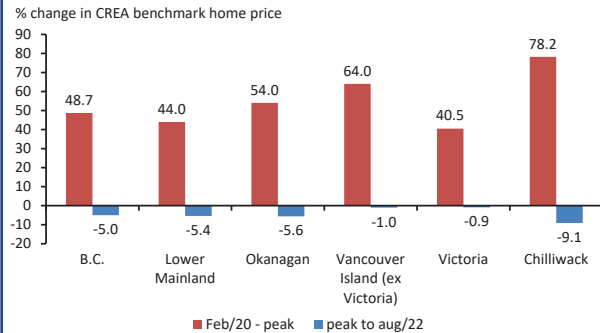
B.C.'s housing market recession deepened in August and there are few signs of an impending recovery as interest rates continue to rise as the Bank of Canada signals further tightening to lower inflation.

MLS® home sales fell to a seasonally-adjusted 5,370 units in August, marking a 5.4 per cent drop from July and a seventh straight monthly decline. While the downward trend owes in part to the record pace observed in early 2021, with current sales down 57 per cent from peak, sales have declined 17 per cent below pre-pandemic February 2020. With the pace of sales declines moderating, activity is likely near a bottom.

August's sales decline was near-universal among real estate board areas in the province with the largest observed in Kamloops (-14 per cent) and the Kootenay (-16 per cent). Vancouver Island sales fell 8 per cent, inclusive of Victoria and the central and north island regions, while Lower Mainland-Southwest sales fell five per cent. Relative to February 2020, sales have retreated the most in the Fraser Valley and Vancouver Island.

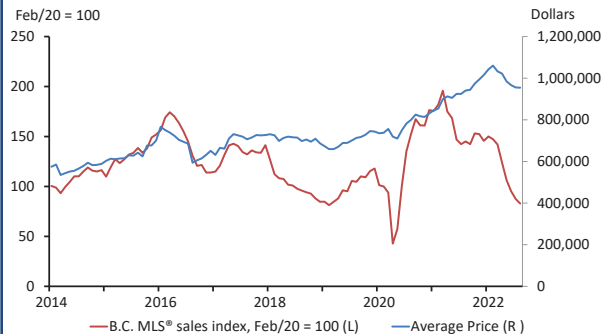
Declining sales owe to the rapid downturn in affordability as surging interest rates pushed buyers to the sidelines, icing some of the region's hottest pandemic markets as affordability seekers no longer have refuge. While fixed rate mortgage rates have been elevated for some time, variable rates have rapidly increased since the beginning of the year. Through August, the Bank had raised short-term rates by 225 basis points since the beginning of the year from a target overnight rate of 0.25 per cent. The rate is since up another 75 basis points with more hikes to come.

Benchmark prices down from peak across most markets



Source: CREA, Central 1

Housing downturn continues but sales likely bottoming



Source: CREA, Central 1

Latest: Aug - 22

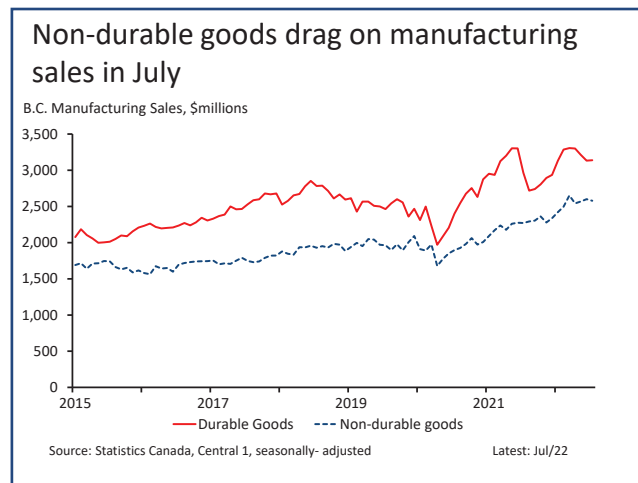
Home prices continue to grind lower as negotiating power has shifted to buyers. The average price of homes sold in August came in at \$954,733, down 0.1 per cent from July and 10 per cent from February. Prices have rolled back to the lowest levels since September. That said, average prices are influenced by sales composition. Constant-quality benchmark prices fell more significantly from July by two per cent provincially, highlighted by Chilliwack (-6.5 per cent) and the Lower Mainland (-2.2 per cent). Provincially, the composite declined five per cent from the peak.

Downward price pressure is likely to continue given the interest rate environment, but there is one sign of stability — supply is generally tame. New listings fell for a second straight month and active listings growth was negligible. This suggests little panic selling thus far as the strong labour market and rising wages support household income, and rental markets remain strong. While sentiment may erode, the mismatch of price expectation between buyers and sellers is likely to contribute to a period of steady prices but low home sales.

Factory sales slip in July, downtrend expected

Bryan Yu, Chief Economist

B.C. manufacturing sales nudged lower in July to extend the recent downtrend to four months. Dollar-volume sales at B.C factories slipped 0.3 per cent to a seasonally-adjusted \$5.71 billion. Despite the drop-off, sales remained near record highs and 10 per cent above year ago levels and 30 per cent higher than February 2020.



July's pullback was driven entirely by non-durable goods which fell 0.8 per cent. Unfortunately, industry data is limited due to data privacy concerns, but half of the net decline owed to a 1.2 per cent drop in food product manufacturing. In contrast, durable goods manufacturing held steady with a 0.1 per cent gain after three months of decline as wood product manufacturing increased 3.0 per cent, while non-metallic mineral products and primary metal manufacturing both rebounded. These gains were offset by declines in fabricated metals (-7.6 per cent) and a dip in machinery manufacturing.

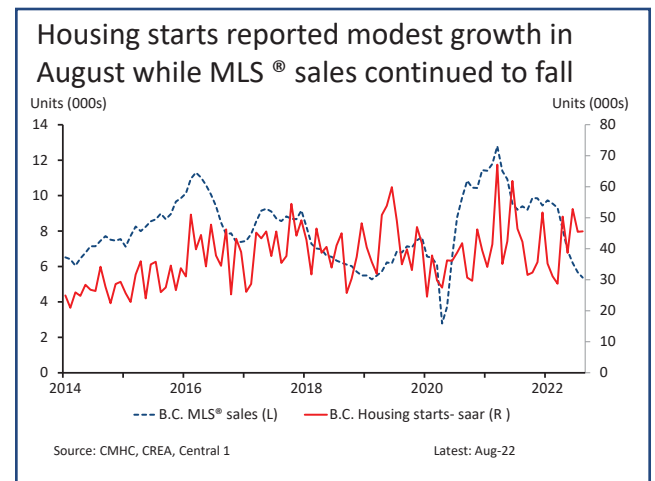
While monthly data fluctuates, B.C.'s manufacturing sector has lost momentum owing in large part to resources-related production. Higher interest rates have curbed demand for housing in the U.S. and pushed wood prices sharply lower triggering lumber and paper mill curtailments. Meanwhile, the global economic slowdown and recession fears have cut metal and mineral prices. Domestically, the economy remains firm but higher interest rates and a housing downturn will further contribute to a slide in manufacturing sales.

Housing starts reported modest growth in August

Ivy Ruan, Economic Analyst

Following the sharp decline of urban housing starts in July, activity rose modestly in August to a seasonally-adjusted annualized pace of 45,620 units, up from 45,490 units (0.3 per cent) recorded last month. This contrasts with declining MLS® sales but new home construction lags activity in resale markets.

Multi-family starts edged up 1.6 per cent from July to an annualized 38,970 units, recovering some of the losses in July. Meanwhile, detached housing starts dropped 6.7 per cent to an annualized 6,650 units, offsetting most of the gains in multi-family sector. Among Census Metropolitan Areas (CMA), Victoria contributed to the loss in provincial housing starts, down 59.9 per cent to 4,538 units (annualized), together with Abbotsford-Mission, which reported 66.0 per cent decline to annualized 662 units. Kelowna and Vancouver made up for the losses, with almost sixfold more starts (annualized 7,665 units) in Kelowna and steady performance in Vancouver (annualized 23,265 units).



Year-to-date, multi-family housing starts were down to 3,043 units through the first eight months, 12 per cent lower than the same period in 2021. Single-detached starts (5,081 units) were 7.0 per cent below last year. The decrease of multi-family sector housing starts in Vancouver contributed the most to the provincial decrease, with 21 per cent lower starts than last year, while a 3 per cent increase was reported in the single-detached sector. On the other hand, Abbotsford-Mission saw increases in both single-detached (32 per cent) and multi-family starts (78 per cent) compared to last year.

Different results on housing starts reported among other central areas suggested mixed impacts of housing downturn on local markets and could also reflect prior market conditions. In bigger markets like Vancouver, housing starts would remain steady as long-term building projects could benefit from future market recovery. Strong population growth and migration to larger cities can also be supportive.

For more information, contact economics@central1.com.